

LOUISIANA TECHNOLOGY INNOVATION FUND PROPOSAL

Uniform Local Sales Tax Code Electronic Return and Remittance System

I PROJECT TITLE

Uniform Local Sales Tax Code (UTC) Electronic Return and Remittance System

II PROJECT LEADER

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III EXECUTIVE SUMMARY

The Department of Revenue requests **\$267,200** to create a “Uniform Local Sales Tax Code (UTC) Electronic Return and Remittance System” for the electronic filing of sales and use tax returns with local governments in Louisiana, as mandated by Act No. 73 of the 2003 Regular Session of the Legislature. This innovative concept will streamline the method that dealers (taxpayers) use to report sales tax information and remit tax payments to local taxing jurisdictions and local tax collection authorities. The proposed approach of electronic reporting and payment will greatly improve a sometimes cumbersome, mostly paper-based system.

Act No. 73 mandates that the system be made available without charge to local taxing jurisdictions, local tax collection authorities, or to dealers who file through use of the system. Therefore, the charging of fees for the use of the system is not an available means of funding. The department submitted a fiscal note indicating costs of \$419,450 for creating and operating the UTC System for the first two years. Those funds were not appropriated in the General Appropriations Bill. Therefore, funding from the Louisiana Technology Innovation Fund is being sought. This application seeks funding for only the initial startup of this system. The department will ask the Legislature in 2004-05 to fund the continued development and operation of the UTC System. Act No. 73 mandates that the program be operational by January 1, 2005. If, however, the department does not receive funding from any source before the 2004-05 budget year, it is unlikely that the mandated deadline for the operation of the UTC System can be met.

IV DESCRIPTION OF THE PROJECT

A. Project Narrative

The goal of this project is to create a technologically advanced electronic filing system for local sales and use taxes in Louisiana that will be easier for dealers to use than the present system of paper filing and payment, and that will meet the needs of local governments by providing them with revenues and tax filing information efficiently and on a timely basis.

In this project the Department of Revenue will create the “Uniform Electronic Local Return and Remittance System” that has been mandated by Act No. 73 of the 2003 Regular Session of the Louisiana Legislature. The Act also creates the “Uniform Electronic Local Return and Remittance Advisory Committee” to provide advice and recommendations to the department regarding the creation and operation of the system.

The system will enable dealers to electronically file local sales and use returns and submit payments. This approach will enable the department to receive the returns and payments; and immediately retransmit them to the appropriate local sales tax authorities. This will be a new and innovative system for the centralized electronic filing and payment

through a web site to be hosted by the Department of Revenue, and for the department's transmission of funds and return filing information to local sales tax collecting authorities. No similar system is now in use in the State of Louisiana. The proposed system will be different from those used by other state revenue departments for their collection of local sales and use taxes because:

- The system proposed in Act No 73 will be totally electronic, as contrasted with systems in most other states that primarily use traditional paper filing systems; and
- The department will make available to local sales tax authorities the return filing information submitted by individual dealers. Other state revenue departments that collect local taxes do not usually furnish individual dealer filing information to the local taxing jurisdictions.

Sales and use taxes are levied in 63 of the state's 64 parishes under authority granted to local governments by Article 6, Section 29 of the Louisiana Constitution. Local returns and payments are now filed with each parish individually - almost exclusively through the submission through U.S. Mail of traditional paper returns and paper checks. The number of sales tax returns that some dealers must file in Louisiana combined with the number of different tax collection authorities with whom those returns must be filed creates a system that some dealers believe is quite cumbersome. Some dealers say that their having to comply with local sales tax collection and filing requirements is a deterrent to their doing business here.

The system of local sales tax administration in Louisiana is different from systems in nearly every other state in that in Louisiana local governments not only levy the tax, but uniquely also collect and administer the tax. Businesses that are required to file with several Louisiana parishes must secure individual filing forms from each parish, fill out the paper forms, write checks payable to each parish authority, and incur postage costs to mail each form and check. Although the electronic filing of state sales tax returns has been available through the department's web site for several years, electronic filing is not generally available at the local level.

Under the system mandated by Act No. 73, local governments will retain their present authority to levy, collect, and administer sales and use taxes. Act No. 73 mandates that an electronic filing system for local taxes be developed that will be an optional alternative to paper filing for all dealers. Dealers will be able to access an electronic filing web site that will be linkable from the department's web site for their electronic filing of returns with all the parishes where they operate. Funds in payment of taxes will also be transmitted electronically. The department anticipates that under this system tax payments will be available immediately to the local tax authorities, and that the return filing data will be available for secure download or transmission soon thereafter.

In creating the system for local sales tax filing, the department cannot easily modify the existing state electronic filing system to meet local filing needs. There are more than 340 local sales tax jurisdictions in Louisiana. Each jurisdiction sets its own sales tax rates and rates of vendor's compensation that dealers receive for timely filing. There are several sales tax exemptions and credits that the Legislature has authorized to be optional at the local level, that will have to be separately considered for each jurisdiction when the department develops each jurisdiction's filing template. The state sales tax law levies in several major areas for the state (telecommunications, water, gas, electricity) where taxation is prohibited by local governments, and exempts in many areas where taxation is authorized to be levied and is almost universally levied by local governments (medical devices, food for home consumption, prescription drugs, for example).

The desired and anticipated outcomes of the project are that the dealers and local sales tax authorities will recognize the system as superior to the present paper-based system, and will use the system in large numbers for their routine local sales tax filings. In accomplishing these outcomes, the system will make a difference in the following ways:

- The costs of dealers to comply with sales tax laws will diminish;
- Tax authorities will receive available funds and tax information in a usable form in a more timely and efficient manner than now possible with a paper-based system; and
- The perception of Louisiana as a good place to do business will improve.

The users to be served by implementing the project are the approximately 100,000 businesses and individuals who file local sales and use taxes in Louisiana, the more than 340 jurisdictions who levy taxes, and the 58 local sales tax collection authorities who collect for the 63 parishes in which local sales and use taxes are imposed.

This will be a collaborative effort involving multiple governmental agencies and associated organizations. The parish tax collection authorities will supply needed local tax information to the department for inclusion in the system. Local authorities are represented in the project unofficially through the Louisiana Association of Tax Administrators.

Organizations having input into the formation of and operation of the “Uniform Electronic Local Return and Remittance Advisory Committee” will include The Louisiana Municipal Association, The Louisiana Police Jury Association, the Louisiana School Boards Association, the Louisiana Society of Certified Public Accountants, the Louisiana Association of Tax Administrators, the Louisiana Retail Dealers Association, and the Louisiana Association of Business and Industry.

The “Uniform Electronic Local Return and Remittance System” is an innovative strategy to addressing a cumbersome process. Implementation of this progressive approach will be mutually beneficial to all parties.

B. Use of Innovative Technology

This will be a new and innovative system for the centralized electronic filing and payment processing. No similar system is now in use in the State of Louisiana. As previously stated, the system will be different from systems used by other state revenue departments for their collection of local sales and use taxes because:

- The system will be totally electronic, as contrasted with systems in most other states that primarily use traditional paper filing systems; and
- The department will make available to local sales tax authorities the return filing information submitted by individual dealers. Other state revenue departments that collect local taxes do not usually furnish individual dealer filing information to the local taxing jurisdictions.

The concept of the project represents a strategic partnership among several organizations as previously noted. It addresses an issue that has been sometimes cited by dealers as a deterrent to doing business in Louisiana. This web-enabled initiative makes it easier to do business in the State by extending the use of web-enabled, electronic services to a significant segment of the State’s taxpayer base.

C. Multi-agency Application or Portability to Other Agencies

By definition, the implementation of the requirements of Act 73 involves multiple government agencies. LDR will develop and maintain a web-based application, which will allow the capture of local jurisdiction’s tax returns and remittances. The local tax authorities will then be able to retrieve this information and these payments.

The parish tax collection authorities will be required to supply needed local tax information to the department for inclusion in the system. Local authorities are represented in the project unofficially through the Louisiana Association of Tax Administrators. The Louisiana Municipal Association, The Louisiana Police Jury Association, the Louisiana School Boards Association, the Louisiana Society of Certified Public Accountants, the Louisiana Association of Tax Administrators, the Louisiana Retail Dealers Association, and the Louisiana Association of Business and Industry will all have input into the formation of and operation of the “Uniform Electronic Local Return and Remittance Advisory Committee”.

D. Benchmarking Partners and/or Best Practice References (if applicable)

LDR representatives are involved with several states on tax initiatives through such organizations as the Federation of Tax Administrators and the Multi-State Tax Commission. Based on the activities with these organizations and additional research, LDR has determined that this project is unique among state governments. LDR is not aware of an application similar to the proposed project since most states collect local taxes and distribute the funds to the local jurisdictions. In this case, the State of Louisiana would facilitate the reporting and remitting of taxes to local tax authority by providing the technology, but local jurisdictions would retain autonomy in interacting with taxpayers. This innovative approach could build a foundation for additional collaboration between state and local tax authorities as electronic government continues to grow.

E. Long-range Planning

The proposed project meets the requirements stipulated in Act 73 of 2003 Regular Session of the Louisiana Legislature. A primary component of LDR’s strategic direction is to increase the number of tax returns and remittances submitted electronically. The project fits into the agency’s long range planning and its technical direction by making it easier for the State’s sales taxpayers to interact with local tax authorities.

F. Performance Goal

The goal of the UTC system is to create a technologically advanced electronic filing system for local sales and use taxes in Louisiana that will be easier for dealers to use than the present system of paper filing and payment, and that will meet the needs of local governments by providing them with revenues and tax filing information efficiently and on a timely basis.

The key performance goal is the degree of usage of the UTC system by taxpayers. The success of the system will be measured based on the following indicator:

Indicator Name	Indicator Value
Number of returns filed using the system	FY 2004-05 - 9,000+ FY 2005-06 - 27,000+ FY 2006-07 - 63,000+

As historical data is available from the system, other indicators may be added such as the percentage of monies remitted electronically or reduction in cost of compliance.

G. Technical Approach

1. *Technical description.* This project requires an Intel-based/Microsoft Windows web server that involves secured access for taxpayers for local sales tax filing and remittance information. The system will offer the option of web filing of local sales tax returns and payments to taxpayers. The returns will be formatted in a standard format such that the local tax agencies will be able to retrieve the tax return records and use for their internal processing. The remittance records will be formatted in standard banking formats that can be processed by the local agencies' financial institutions. The server will operate within the department's existing systems/network. The system will be upgradeable to accommodate increased activity as needed. The server will incorporate secured socket layer security (SSL) technology and additional application level security. It is planned to have the taxpayer information stored on a separate data server to provide additional security. This configuration will allow the system to interface with existing infrastructure and backup/monitoring capabilities. Normal maintenance of the system will be handled by departmental staff or outsourced as needed.

2. *Interoperability.* As a web-based application, the UTC system is designed to be interoperable and available to sales taxpayers as well as LDR and local tax authorities. Interoperability will be a key component in the design of the system. All components selected for the application will be based on a structured architecture and will verify interoperability through "proof of concept" demonstration. The openness of the design will also permit replacing components as better technology emerges and provides the capability to easily migrate to another hosting platform if that need arises.

3. *Scalability.* There are approximately 100,000 business and individuals who file local sales and use taxes in Louisiana, more than 340 jurisdictions who levy taxes, and 58 local sales tax collection authorities who collect for the 63 parishes in which local sales and use taxes are imposed. The application must support potential growth in number of taxpayers and local tax authorities participating. The system could also provide a framework or model for future collaborations between the State and local tax jurisdictions. The contracts issued to develop and implement the UTC system will include these scalability requirements and possibilities.

4. *Maintaining the System.* The UTC system environment will be hosted at a State Data Center. LDR, with assistance from qualified service providers, will provide operational support. The proposed project includes training resources to fully transition this operational support to state staff.

H. Implementation Approach

Implementation of the proposed project will be structured into the following tasks and time frames as indicated:

Task	Dec '03	Jan '04	Feb '04	Mar '04	Apr '04	May '04	Jun '04	Jul '04	Aug '04	Sep '04
1. Create advisory board	-----									
2. Procure IT professional services	-----									
3. Develop system requirements		-----								
4. Develop detail design			-----							
5. Procure IT hardware/software					-----					
6. Establish technical environment							-----			
7. Develop/test system						-----				
8. Make system available										→

1. *Create advisory board.* A first step in the project will be to establish the advisory board composed of various governmental agencies and associated organizations as stipulated in Act 73.
2. *Procure IT professional services.* IT professional services will be procured early in the project to assist in developing requirements and concepts. These resources will work closely with LDR technical and business personnel in developing the project as well as interacting with the advisory board in determining the complete requirements of the system.
3. *Develop system requirements.* LDR employees and the selected vendor will work in conjunction with the advisory board in developing the parameters and requirements of the system. Data gathering from all parties to be involved with the system will occur to ensure all needs are met.
4. *Develop detail design.* A detail design will then be created and validated as meeting the specifications of Act 73 for the “Uniform Electronic Local Return and Remittance System”.
5. *Procure IT hardware/software.* Any needed hardware and software will be procured in compliance with statewide standards and purchasing regulations.
6. *Establish technical environment.* The hosting environment will then be implemented. It is anticipated that this configuration will utilize hardware and software components interfacing through existing statewide IT network infrastructure.
7. *Develop/test system.* The system will then be developed according to the projected schedule. Testing is projected to involve unit testing of each component as well as full system testing which may involve taxpayers, local tax authorities, and financial institutions.
8. *Make system available.*

I. Assessment of Risks

The risks involved in this project are minimal. LDR has developed and currently operates an electronic filing/payment system for several state taxes. The agency has extensive experience in working with electronic transactions in processing tax returns/payments. In developing this level of knowledge, LDR has partnered with technology vendors, financial institutions, and other tax agencies acquiring considerable expertise in this area. LDR has also researched this endeavor with vendors providing this technology.

From a business perspective, Act 73 requires the formation of an advisory committee composed of state and local business and government leaders. This group will ensure that the business rules for the System are accurate and processing correctly.

J. Integration with Existing Technologies

The System will make extensive use of existing State IT infrastructure. The servers will be integrated with LDR's web servers as well as LDR's Storage Area Network configuration, which is housed in the State Data Center at Department of Public Safety. This configuration will take advantage of existing security interfaces, backup/recovery capabilities, and performance monitoring processes. As a web-based application, it will traverse the statewide data communications network.

K. Project Budget and Costs

1. *Equipment and software.*

EQUIPMENT			
<u>Desktop Computers/Laptops.</u> Two desktop computers and one laptop will be used for operational and support purposes. Total cost is estimated to be \$5,000 based on 2003-04 budget guidelines.			
<u>Servers.</u> A web applications server (with related components and software) and a database server will be located at a State data center as the core component of this web-based system. Estimated cost: \$45,000.			
Cost Summary:			
<u>Item</u>	<u>Quantity</u>	<u>Unit Price</u>	<u>Total</u>
Desktop Computers	2	\$ 1,250	\$ 2,500
Laptop computer	1	\$ 2,500	\$ 2,500
Web server + related components	1	\$45,000	\$ 45,000
Total			\$50,000

2. *Professional/Contracted Services.*

PROFESSIONAL SERVICES			
<u>Systems Development Contract.</u> Professional services will be required to design, implement, and maintain the proposed UTC system. It is estimated that 1250 hours of consulting services at \$120/hr will be required for design and development.			
<u>Application and Operational Support.</u> An additional 560 hours of professional services support will be required during the 7-month period after initial system delivery. During this period, state personnel will be hired and trained in support of the product.			
Cost Summary:			
<u>Item</u>	<u>Quantity</u>	<u>Unit Price</u>	<u>Total</u>
Development and Implementation	1,250	\$120/hr	\$150,000
Operational and Application Support	560	\$120/hr	\$ 67,200
Total			\$217,200

V FUNDING REQUESTED

FUNDING REQUESTED			
<u>Funding Category</u>	<u>Total Cost</u>	<u>Other Sources</u>	<u>Funding Requested</u>
Equipment and software	\$ 50,000	\$ 0	\$50,000
Professional Services	217,200	0	217,200
Total	\$267,200	\$ 0	\$267,200
Note: The department will request the Legislature in 2004-05 to fund continued operation of the system as stipulated in Act 73 of 2003-04 session.			

VI COST/BENEFIT ANALYSIS

The Fiscal Note in Attachment I indicates projected cost of the project. Note that Personal Services costs and Operating Expenses were included in the Fiscal Note, but have been excluded from this request since they do not meet the stipulations of the Technology Innovation Fund. These costs will again be requested in the next Legislative Session to continue ongoing support for the system.

Benefits of the system include:

- the use of a streamlined, electronic interface making it easier and less costly for dealers to comply with the sales tax laws
- the ability by local tax authorities to receive available funds and tax information in a usable format in a more timely and efficient manner
- the improved perception of Louisiana as a good place to do business will improve.

VII SIGNED STANDARD FORM

The information included in this proposal represents the best estimates of benefits, costs, and potential for innovative use of technology for the Uniform Local Sales Tax Code (UTC) Electronic Return and Remittance System project. The Department of Revenue will comply with all reporting requirements established by the Louisiana Technology Innovations Council.

_____	_____
Cynthia Bridges, Secretary	Date
_____	_____
Stephen Hymel, Undersecretary	Date
_____	_____
Greg Montagnino, IT Director	Date

Legislative Fiscal Office Fiscal Note Worksheet

Person preparing fiscal note: Nancy Beverly **Bill Number:** HB 1379/SB 551
Status of Bill: Original **Drafting Number:** HLS 03-1798/SRS 03-1622

Department: Department of Revenue **Author:** Rep. Landrieu/Sen. B Jones
Date sent to agency: April 3, 2003
Date returned to LFO: April 10, 2003 **Analyst:** Bob Hosse

Expenditure Increase (Decrease)					
State Costs	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008
Personal Services	\$52,600	\$136,600	\$142,000	\$147,700	\$153,600
Operating Expenses	\$1,800	\$23,400	\$24,600	\$25,800	\$27,100
Professional Services	\$150,000	\$0	\$0	\$0	\$0
Other Charges	\$0	\$0	\$0	\$0	\$0
Equipment	\$46,550	\$8,500	\$5,400	\$5,400	\$5,400
Total State Expenses	\$250,950	\$168,500	\$172,000	\$178,900	\$186,100

Personnel (by classification)	2003-2004		2004-2005		2005-2006		2006-2007		2007-2008	
	No Pos	Av Sal	No Pos	Av Sal	No Pos	Av Sal	No Pos	Av Sal	No Pos	Av Sal
IT Prog/Analyst 1			1	\$46,200	1	\$48,000	1	\$49,900	1	\$51,900
IT Prog/Analyst 2	1	\$52,600	1	\$54,700	1	\$56,900	1	\$59,200	1	\$61,600
Rev Acct Auditor 3			1	\$35,700	1	\$37,100	1	\$38,600	1	\$40,100
Totals	1	\$52,600	3	\$136,600	3	\$142,000	3	\$147,700	3	\$153,600

Means of Finance for above expenditures					
Fiscal Year:	State General Fund	Agency Self Generated	Restricted/Other*	Federal Funds	Local Funds
2003-2004	\$250,950	\$0	\$0	\$0	\$0
2004-2005	\$168,500	\$0	\$0	\$0	\$0
2005-2006	\$172,000	\$0	\$0	\$0	\$0
2006-2007	\$178,900	\$0	\$0	\$0	\$0
2007-2008	\$186,100	\$0	\$0	\$0	\$0

*Specify the fund source being used.

Narrative Explanation of Expenditure Impact

1) Implementation Costs: Include any assumptions used. If there is no fiscal impact, explain why.)

Implementation of this proposal will result in additional costs primarily for establishing, managing, and supervising the uniform electronic local return and remittance system, which must meet the following criteria:

1. ***Contain a general sales and use tax return that is uniform for each taxing authority, with noted exceptions;***
2. ***The filing and remittance must be done at no charge to the taxpayer;***
3. ***Have a web page through which the returns can be filed;***
4. ***The system must allow for the remittance of tax, interest, penalty, and any other amounts due;***
5. ***The system must allow for the transmission and retrieval of the appropriate local collector's data and funds; and***
6. ***A link must be created on the web site to a web page where local tax ordinances provided by the local collector are posted.***

The total implementation costs are included on the continuation sheet.

- 2) Source of Funds (Include any alternative sources that may be available):

Section 337.23(J) of this proposal requires a separate line item in the general appropriation bill to fund the design, implementation, and operation of the uniform electronic local return and remittance system.

Fiscal Year:	Revenue Increase (Decrease)				
	State General Fund	Agency Self Generated	Restricted/Other*	Federal Funds	Local Funds
2003-2004	\$0				
2004-2005	\$0				
2005-2006	\$0				
2006-2007	\$0				
2007-2008	\$0				

*Specify the fund

Narrative Explanation of Revenue Impact (Include any assumptions used. If there is no fiscal impact, explain why.)

This proposal provides for a Uniform Local Sales Tax Code (UTC) by gathering various provisions applicable to local sales and use taxes from Titles 47, 33, and other titles and placing them in a separate Chapter of Title 47 and requires local sales tax to be administered and collected in conformity with the provisions.

The proposal's provisions that impact the Department of Revenue are as follows:

1. ***Authorizes the Department to collect local sales tax by contract (§ 337.16 and § 337.26).***
2. ***Creates the Uniform Electronic Local Return and Remittance Advisory Committee within the Department (§ 337.23(B)(1) and § 459(H)).***
3. ***Requires the Advisory Committee to compose a standard uniform local sales tax return (§ 337.22(C) and (D)).***
4. ***Requires the Department to establish, manage, and supervise the uniform electronic local return and remittance system (§ 337.23(C)).***
5. ***Requires the Department to establish and maintain a web page listing the local tax rates and exemptions (§ 337.23(I)).***

The proposal provides in R.S. 47:337.2(A)(2) that “Nothing in this Chapter is intended to increase or decrease the amount or type of taxes required to be paid as July 1, 2003.”

The proposal should have no effect on state or local sales tax collections.

Continuation Sheet

Implementation Cost: (continued)

The Uniform Electronic Local Return and Remittance system must become operative no later than January 1, 2005, but only if the implementation funds are appropriated as a separate line item in the general appropriation bill.

Under this system, the Department of Revenue will not have the authority to collect or administer any local taxes and any funds transmitted through the system will be considered the funds of the taxing authorities to be distributed by the local collector in the manner provided by local ordinances and will not in any way be considered state funds.

Implementation costs for the design, implementation, and operation of the uniform electronic local return and remittance system and web page with the local tax rates and exemptions is estimated as follows:

- 1. Personal Services—additional personnel would be required as follows:**
 - a. One Information Technology Applications Programmer/Analyst 1 would be required to be primarily responsible for computer systems maintenance;**
 - b. One Information Technology Applications Programmer/Analyst 2 would be required to serve as a liaison between the state and local systems personnel; and**
 - c. One Revenue Accounts Auditor would be required to field questions from taxpayers concerning use of the Uniform Electronic Local Return and Remittance System.**
- 2. Operating Expenses—additional costs will be incurred for telephone services, data communications services, and miscellaneous supplies.**
- 3. Professional Services for the system design and development is estimated to cost \$150,000.**
- 4. Acquisitions—the costs for computer hardware, software, and related components including 12 percent program software maintenance costs for subsequent years.**

The implementation costs for the first and second years are estimated as follows:

Implementation Costs	1 st Year	2 nd Year
Personal services including related benefit costs		
Information Technology Programmer Analyst 1 (GS 19)		\$46,200
Information Technology Programmer Analyst 2 (GS 21)	\$52,600	\$54,700
Revenue Accounts Auditor 3 (GS 15)		\$35,700
Total personal services	\$52,600	\$136,600
Operating expenses		
Telephone services for three employees @ \$1,200 each	\$1,200	\$3,600
Data communications services		\$18,000
Consumable office supplies for three employees @ \$600 each	\$600	\$1,800
Total operating expenses	\$1,800	\$23,400

Professional services for system design	\$150,000	\$0
Equipment		
Desktop computers for three employees @ \$1,550 each	\$1,550	\$3,100
Web server and related components and software	\$45,000	\$5,400
Total equipment	\$46,550	\$8,500
Total estimated costs	\$250,950	\$168,500

A four percent inflation factor was assumed to project the second and subsequent years' personal services costs and a five percent inflation factor was assumed for the operating expenses.

The proposal also authorizes the Department of Revenue to contract with local taxing subdivisions to collect and enforce the collection of any sales and use tax, and related penalty, interest, and other charge levied by the local taxing authority. It is assumed that any contracts negotiated for the collection of local tax will cover the agency costs. Therefore, no implementation costs have been estimated for this item.